

DSW uses these alternative financing tools and methods in lieu of Federal appropriations to ensure its customers' needs are consistently met. DSW has used multiple funding arrangements to construct transmission system upgrades, build new construction and pay for operations and maintenance work.

## Customer benefits

Participating in Western's Alternative Financing program offers several benefits to customers, including:

- Provides an avenue for customers to leverage Western's transmission capability to meet their future load growth needs
- Enhances customer participation in existing forums for transmission growth planning
- Gives customers access to Western's construction, operation and maintenance expertise and authorities
- Allows customers to influence transmission system upgrades by providing adequate funding or choosing not to provide funding
- Ensures that adequate funding for core programs is available to provide customers with efficient, reliable and safe transmission service and power delivery

## DSW benefits

Alternative financing improves DSW's ability to provide service to customers by:

- Allowing Western to reduce its dependency on diminishing Congressional appropriations
- Seeking Federal appropriations for critical projects that are not funded by customers
- Securing a stable funding source for Federal power programs
- Ensuring efficient, reliable and safe power delivery to program beneficiaries
- Enhancing Western's ability to meet customer power and transmission needs
- Expanding funding sources that allow Western more flexibility to accommodate individual customer needs for custom products and services

## Questions about alternative financing strategies?

Call: Tony Montoya at 602-352-2780 for transmission system construction projects

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## ALTERNATIVE FINANCING



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Customer Meeting  
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**W**estern Western uses a variety of mechanisms to fund its annual expenses including congressional appropriations, customer funding and access to power receipts.

## Current financing methods

Western's Parker-Davis Project and Pacific Northwest-Pacific Southwest Intertie programs were traditionally financed by appropriations from Congress. Currently, Western and Reclamation Parker-Davis generation-related operations and maintenance expenses are paid using funding advanced from customers. Western also receives customer advances to fund a portion of Intertie O&M expenses.

Colorado River Storage Project legislation provides financing through direct access to power receipts in the CRSP revolving fund. The Boulder Canyon Project is financed through a permanent appropriation of receipts from the Colorado River Dam Fund.

Western's activities to support the Central Arizona Project are paid for through advance funding from the Central Arizona Water Conservation District, Reclamation and CAP transmission system customers.

Western also has the authority to accept funds from customers to finance power system annual expenses and capital improvements. We also do work for other Federal and non-Federal organizations, financed using alternative funding arrangements under authority of the Economy Act, the Contributed Funds Act and the Interior Department Appropriations Act of 1928.

In FY 2001, Western obtained authority from Congress to fund portions of the Purchase Power and Wheeling activity from use of receipts.

## Future funding outlook

Due to increased Congressional emphasis on homeland security and defense, Western expects appropriations will continue to decline. To sustain our ability to provide reliable cost-effective services, Western continues to seek ways to expand alternative funding within our existing authorities to ensure adequate financing for both Western and Reclamation.

## How do alternative financing mechanisms work?

Participating customers contribute funds to Western in advance of Western performing work. These advances are governed by an agreement between Western and the participating customers. Western uses the contributed funds as if they were federally appropriated dollars to pay for annual expenses and/or capital improvements. Customers are reimbursed for the advance funding through a credit on their power bills for contractual services provided by Western. This alternative financing mechanism can be applied to a broad range of services, including transmission service, electric service and ancillary services.

Western also uses net billing and bill crediting to minimize the amount of cash Western must maintain to fund a portion of its purchase power expenses.

**Net billing** is the most straightforward alternative financing mechanism. The result

of a net billing arrangement is an exchange of services between two parties. Both owe each other money for services provided. However, rather than sending each other separate bills itemizing amounts due, a net bill is prepared showing offsets for the cost for services rendered for both parties. The party owing the net difference then sends a payment to the other party.

**Bill crediting** is a more complex form of alternative financing that involves three parties. Under this arrangement, Western has a contract with the customer to provide a service, for example purchase and delivery of power. To provide this service, Western may need to purchase power from a third-party supplier. The power supplier bills Western. But instead of making payment to the supplier and then billing the customer, Western forwards the bill to the customer who then pays the third-party supplier directly. In a bill crediting arrangement, a customer that owes Western for services pays a third-party for a debt owed by Western. The result of a bill crediting arrangement is that money is exchanged between the customer and the third-party supplier.

## What can be funded using alternative financing?

Western has legislative authority to pay all types of expenses using alternative financing mechanisms. These include operations and maintenance, purchase power and wheeling, and construction and rehabilitation capital improvement projects. Western has considerable flexibility in structuring alternative financing arrangements to meet the needs of both our customers and Western.